

BRIEF IN SUPPORT OF PETITION FOR CERTIORARI.

Opinion of the Courts Below.

The opinion of the special master begins at page 322 of the record. The opinion of the District Court begins at page 346 of the record.

The opinion of the Court of Appeals begins at page 370 of the record.

Jurisdiction.

As this is a suit for infringement of a trade-mark registered by the Federal Trade-Mark Act of February 20, 1905, jurisdiction of the cause rested in the District Court of the United States for the Eastern District of Missouri, Eastern Division, wherein the defendant had a place of business and was subject to service (15 U. S. C. 97).

The Supreme Court of the United States is authorized to grant the writ of certiorari herein sought under 15 U. S. C. 98.

Statement.

The facts are largely set forth in the petition. Petitioner has used its trade-mark "REX" for bottles since 1896. In 1927, petitioner had correspondence with respondent concerning petitioner's REX bottles (R. 6). In 1931, respondent began its infringement by applying "The REXALL Store" to bottles, the word REXALL being in large and dominating lettering. Respondent, years before, had been in litigation holding REX and REXALL confusingly similar. *Regis v. Jaynes & Co.*, 185 Mass. 458, 70 N. E. 480; *United Drug Co. v. Golden State Wines, Inc.*, 27 USPQ 129.

Petitioner learned of respondent's infringement, and notified it to stop, in 1932. Thereupon, respondent agreed to stop selling the infringing bottles. Actually respondent never did stop, but, to the contrary, began building up its sales, in 1934, to huge volume.* Petitioner, learning of respondent's ill faith, brought this suit in 1935.

Both the District Court and the Court of Appeals held this infringement to be in bad faith (R. 8). This was reiterated by the Court of Appeals on the appeal from the final decree after the accounting (R. 373).

As already pointed out, the accounting record on profits is very short. Respondent filed its statement of account showing a gross infringement of \$429,876.68, broken down by years (R. 273). Petitioner, relying upon the statute, interpreted by the *Mishawaka* case, 316 U. S. 203, merely offered the statements of respondent's sales, and rested its *prima facie* proof on profits (R. 75). Respondent elected to take no testimony on its own behalf. There is not one word of testimony in the accounting record on the point of whether or not the particular purchasers of infringing bottles from respondent were or were not confused. Both the District Court and the Court of Appeals had held in the main trial and appeal that confusion was likely. This was the law of the case.

With the foregoing state of the record, the sole question before the master was whether petitioner had made an adequate *prima facie* case, or not. If the *Mishawaka* case represents the law, then petitioner offered all of the *prima facie* proof required, by the uncontested proof of sales, and did not need to prove additionally that some or all of the

* Respondent's sales prior to its agreement to stop were relatively very small, aggregating less than \$15,000.00. After the agreement to stop the sales, respondent sold \$415,339.73 worth of the bottles.

sales resulted from confusion, plaintiff should have prevailed. If, however, petitioner should have further proved that some or all of the sales resulted from confusion, petitioner may not have proved its *prima facie* case. But we submit that the latter alternative requires radical alteration of this Court's ruling in the *Mishawaka* case.

The master chose the second alternative. His ruling may be typified by his statement (R. 331): "that, in the *absence of some evidence* to the contrary, it should be *assumed* that the possible store advertising value of a 'REXALL' store reminder on the bottles was the inducement for all the sales to druggists of 'REXALL' imprinted prescription bottles, whether by plaintiff or defendant." (Emphasis added.)

Necessarily, at that stage of the case, such "evidence to the contrary" found absent by the master, was absent because *petitioner* failed to prove its *prima facie* case adequately. After petitioner rested, respondent took no testimony. In other words, the master required of petitioner more than mere proof of sales.

The master arrived at his deduction by assuming—he used that term (R. 331)—that the sales were made without confusion, on the theory that all sales were the sole result of a business relationship between respondent and the stores. We deny that this is a fact.

This petition is not one to seek a ruling by this Court on whether or not, in point of fact, the sales were all made because of the business relationship, and not because of confusion. (Although we certainly contend that confusion participated in the sales.) The question is: who was required to prove the presence or absence of confusion? If petitioner carried that as an additional burden, then the issue would be one of fact. If respondent carried the burden, it certainly did not support it by offering no proof

whatever. If respondent carried it, then petitioner has never had its day in court on the point. Petitioner had no opportunity to present refuting evidence to principal evidence never offered. The assumption of the master, based on idea rather than evidence, foreclosed petitioner from ever traversing the conclusion by contrary evidence.

The master made a conclusion based on an assumption. The District Court did not rule on the matter, but held that the master's "conclusion of fact" would not be upset (R. 348-9). The District Court could not call it a finding of fact, but nevertheless gave it the full presumption of such, never considering its illegitimate background.

The Court of Appeals, in similar vein, held that the "findings below are conclusive on this court unless clearly erroneous." The Court catalogued some of the evidence from the original trial wherein petitioner prevailed, none of which negatives the likelihood or existence of confusion, and most certainly does not constitute proof of absence of confusion.

The assumption of the special master, resulting from his holding that petitioner failed in *prima facie* proof because it did not prove more than respondent's sales, became an immutable pronouncement by sheer repetition.

Specification of Errors.

It was error on the part of the tribunals below to place the burden on petitioner to prove individual cases of confusion among respondent's purchasers as part of its *prima facie* case on the accounting. Petitioner having proved respondent's sales, and respondent having offered no evidence or testimony whatsoever that any one of them was the result of anything except confusion, petitioner should have been awarded respondent's profits.

Summary of Argument.

The argument is a development of the reasons for granting the writ.

Argument.

We respectfully urge this Court to grant this petition, in order to eliminate the inevitable confusion it will generate.

At the outset, we want to make clear that we do not present to this Court the issue of deciding whether or not the conclusion of the master, reiterated by the Courts, was right or wrong, in point of fact. Of course, we state that it is wrong. But the issue here is not upon that fact. The question is whether or not the master was entitled to make any conclusion at all that results in holding that proof of respondent's sales only, was not adequate *prima facie* proof by petitioner to justify an award of profits in the absence of proof by respondent of each and every deduction claimed by it.

It must be clear that the master's conclusion on the controvertible point of whether or not the sales all resulted from confusion, required a determination by him of where the burden to prove confusion, or its absence, lay. If petitioner had the burden to prove actual existence of confusion in the total sales, then the master's right to make a conclusion that none existed, might be supported. On the other hand, if petitioner had no burden to prove more than respondent's sales, then the burden lay upon respondent to prove all claimed deductions, including the claim that some or all sales were made without confusion. As respondent offered no proof on this point, the master certainly had no right to make any conclusion that the sales resulted from other than confusion. Petitioner en-

tered the accounting fortified with an adjudication that confusion was a manifest likelihood.

Stated differently, if petitioner did have to prove existence of actual confusion as distinguished from likelihood thereof, admittedly petitioner may have failed to take advantage of its day in court. But if respondent had to prove absence of confusion, to support avoidance of an award of its profits, then the conclusion of the master, based upon assumptions against petitioner, denied petitioner its day in court on the whole controverted point.

Again, if the master was entitled to make a conclusion against petitioner on the issue of confusion, concerning which no evidence was offered on the accounting, then petitioner had not only to prove respondent's sales, but also to anticipate the claim by respondent that some or all sales were not the result of confusion, and *before any proof by respondent*, proceed to disprove respondent's case before it was ever made.

It seems possible that the present situation has arisen from a misapprehension of certain statements by this Court in the *Mishawaka* case. The master referred to that part of the *Mishawaka* decision stating that "The plaintiff is of course not entitled to profits demonstrably not attributable to the unlawful use of his mark" (316 U. S. 206). No one denies the validity of the statement. But the master withdrew it from its context. He followed it, but he erred on the matter of *which party is to do the demonstrating*.

The master placed the burden of the demonstrating upon petitioner. He cited *Westinghouse v. Wagner* (225 U. S. 604) as authority for requiring the plaintiff to prove not only the sales, but also that some of the sales resulted from confusion; or as he said, the plaintiff must prove that "part of the sales resulted from confusion of origin

before the question of apportionment arises" (R. 328). Necessarily, the master meant that establishment of the likelihood of confusion by the interlocutory decree is insufficient proof of confusion to support the *prima facie* case on the accounting. He meant that the plaintiff must go further, and as the *Westinghouse* case does say, prove that some of the profits were the result of the infringement.

The fallacy is simple. The *Westinghouse* case is a patent case. The patent statute does not contain any provision that "in assessing profits the plaintiff shall be required to prove defendant's sales only; defendant must prove all elements of cost which are claimed."

If the *Westinghouse* rule applied to 1905 trade-marks, this Court could not have said, as it did in the later *Mishawaka* case, that (p. 206):

"If it can be shown that the infringement had no relation to profits made by the defendant, that some purchasers bought goods bearing the infringing mark because of the defendant's recommendation or his reputation or for any reason other than a response to the diffused appeal of the plaintiff's symbol, *the burden of showing this is upon the poacher*. The plaintiff of course is not entitled to profits demonstrably not attributable to the unlawful use of his mark. (Citations.) The burden is the infringer's to prove that his infringement had no cash value in sales made by him. If he does not do so, the profits made on sales of goods bearing the infringing mark properly belong to the owner of the mark * * *."

Only after establishment of the wrong burden of proof rule could the master have arrived at what became his "conclusion of fact" that has barred petitioner's claim here (R. 331), that:

"* * * in the absence of some evidence to the contrary, it should be assumed that the possible store

advertising value of a 'Rexall' store reminder on the bottles was the inducement for all the sales to druggists of 'Rexall' imprinted prescription bottles, whether by plaintiff or defendant."

As the respondent took no evidence on the question, it cannot be doubted that the absence of evidence was attributed by the master to the petitioner's failure to offer proof thereto, in addition to proof of respondent's sales. And the master's conclusion was stated by him to be an assumption. Petitioner offered all the proof required at that stage of the accounting, but was denied recovery because the master *assumed* that, because petitioner did not also offer proof of actual confusion, the issue must be concluded against petitioner. It was this assumption, arising out of erroneous law, that the courts held to be a finding of fact, and hence unassailable.

The master's assumption, in other words, based upon petitioner's failure to supply proof, could not have been made if he had applied the rule of the *Mishawaka* case, that the burden of showing that some purchasers bought goods because of the defendant's recommendation, is upon respondent, the poacher.

Although the courts below designated the master's conclusion as a finding of fact, and hence unassailable by them, the master himself recognized that it was based upon a questionable legal foundation. Note that his findings were all disposed behind his erroneous legal theory. He found (R. 340):

"* * * 8. The *evidence does not afford* any proper basis for conclusion that any sales by defendant to Rexall stores of bottles here involved, were induced by the belief they were 'REX' bottles of plaintiff, or that any of these bottles were subsequently sold or dealt in by any one as bottles.

"* * * 9. It *has not been shown* that plaintiff lost any sales as the result of erroneous assumption that

defendant's bottles here involved were manufactured by plaintiff." (Emphasis added.)

Both findings include in themselves the condition that evidence of confusion was not presented by petitioner.

It may be noted also that the master's opinion recognized that his assumption as to the reason for the sales by respondent, could not be sustained if his statement of the law was incorrect. He stated (R. 331-2):

"* * * If this interpretation is incorrect and the Court's decision means that some actual confusion must be assumed as to the sales to Rexall drug stores, plaintiff should be awarded the entire profits made by defendant on bottles bearing the 'The REXALL Store' imprint. As to profit recovery, the weight of current authority appears to be that a finding that actual confusion resulted casts the burden on defendant to prove what specific sales were not attributable to the infringement."

Again we reiterate that we do not ask this Court to rule as to whether or not the conclusion of the master was correct. We ask this Court to adjudge that the master was in legal error in making any assumption that respondent's sales derived from anything except confusion, where petitioner had established its likelihood, had proved respondent's sales as required by the statute, and respondent had offered no evidence on the accounting on the issue of actual confusion. The *Mishawaka* case makes abundantly clear that the burden of proof rule is identical after decrees based upon actual confusion, and decrees based upon likelihood thereof.

The master recognized that he might have based his finding on an improper legal foundation. Nevertheless,

the courts, without realizing the legal question involved, and failing to correct its erroneous legal premise, affirmed the fact as for all practical purposes unassailable.

The conflict of the burden of proof rule of the present case with the statute and heretofore prevailing decisions has been shown. We urge upon this Court the public importance of the questions involved here. Petitioner relied upon what was heretofore clearly established as the interpretation of the statute. No one can deny that, up to this case, any plaintiff would have felt entirely secure by proving the defendant's sales, and resting his case for profits. No other plaintiff, in a trade-mark case under the statute, should be permitted to lose his award because he also relies upon the *Mishawaka* case, unless, as we earnestly believe, that case does represent the law.

If the *Mishawaka* case does represent the law, this decision should be reversed. The confusion of all litigants will be removed. And this petitioner will be given the profits earned by respondent on its deliberate infringement committed in bad faith.

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